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## Testimony Before The House Energy & Technology Committee

**Integrys Energy Services, Inc.**  
(December 20, 2007)

Good Morning. Mr. Chairman, members of the committee.

My name is Fred Polenz, and I serve as the Director of Business Development for Integrys Energy Services. With me today is Alex Zakem, who works with Integrys Energy Services as an energy regulatory expert.

**Integrys Energy Services has substantial experience in competitive markets**  
Integrys Energy Services, Inc. is a subsidiary of Integrys Energy Group---a Fortune 500 energy holding company headquartered in Chicago, Illinois.

Integrys Energy Services markets electricity and natural gas to customers in 23 states and three Canadian provinces. We also participate actively in wholesale gas and electric markets, and through various subsidiaries maintain a portfolio of generation. Integrys Energy Services maintains offices in Traverse City and Ann Arbor, and has satellite sales offices in Three Rivers and Port Huron.

Integrys Energy Services, Inc. was one of the first licensed alternative electric suppliers in Michigan immediately following the enactment of Public Act 141 in 2000.

**Customer savings from Electric Choice in Michigan**  
Integrys Energy has been one of the largest alternative electric suppliers in Michigan. At its peak, Integrys Energy Services supplied nearly 800 mega watts of power to commercial and industrial customers around the state.

**Perspective on HB 5520-5525**  
Today, I am here to express Integrys Energy Service's strong opposition to House Bills 5520-5525. These bills will effectively eliminate the Electric Choice program in Michigan.

The elimination of competition, or even limiting Electric Choice to a select few, will harm Michigan rate payers. At a time when the regulated utilities are filing for successive rate increases, this package will deprive both commercial and residential customers of the ability to choose a competitive alternative to keep their electric costs in check.

In 2000, DTE and Consumers Energy agreed to a competitive retail electric market in return for the securitization of more than \$2 billion of their assets and the

receipt of over \$100 million in additional stranded cost recovery<sup>1</sup>. In fact, ratepayers will still be paying for the securitization bonds through 2015. Under these bills customers will be paying for Electric Choice programs they can no longer receive.

### **MPSC oversight is crucial in protecting customers**

Under the proposed bills, the utilities now not only want their monopoly back they want less MPSC oversight. They are not offering lower rates, nor are they guaranteeing the lowest cost power plants. Oversight by the MPSC of complex rate making issues is a crucial part of protecting electric customers. The harm the utilities allege they have suffered or will suffer under Electric Choice is dubious, at best, and requires thorough and open investigation. For example, thanks to the expertise and the vigilance of the MPSC, Detroit Edison was ordered to decrease its rates in 2006 due to excessive earnings<sup>2</sup>, and just two days ago the MPSC refused Consumers Energy's request for a \$77 million interim rate on the evidence that Consumers was earning more than its authorized return.<sup>3</sup>

### **False connection of Electric Choice to new generation**

Michigan legislators need to consider the long term benefits to consumers of any energy policy. It appears that the utility rationale to kill Electric Choice is centered around the alleged effect of competition on building new generation in Michigan. The utilities appear to be using electric reliability as a purported reason to eliminate competition, reduce MPSC oversight, and receive a risk-free return on additional investments for their shareholders, rather than focusing on lowest cost options for new generation in Michigan.

Passage of these bills will certainly make it easier and more profitable for utilities to build new plants in the short term, but at what costs to Michigan ratepayers? The MPSC will lose authority to regulate certain rate-making decisions which will result in rate increases for residential customers; the MPSC will be less able to hold utilities accountable for cost overruns and poor management decisions; and customers will lose the ability to use competition as a backstop to excessive utility rates. Going back to a regulated monopoly model is both the wrong short and long-term policy choice for Michigan.

### **Benefits of competition**

Competitive retail and wholesale markets will help ensure that Michigan customers receive reliable electric power, and will allow consumers to shop for their energy supplies as they do for telecommunications, natural gas, and other services. Competition forces utilities and electricity suppliers to improve service and reduce costs

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<sup>1</sup> MPSC Case U-12505 Consumers Energy Securitization authorized up to \$468.6 million. U-12478 DTE Securitization authorized up to \$1.74 billion. U-13720/U-14098 Consumers Energy stranded costs for 2002-2003 of \$63.2 million. U-13808 DTE stranded costs over \$100 million awarded in spring of 2004.

<sup>2</sup> MPSC Case U-14838

<sup>3</sup> MPSC Case U-15245, Order dated December 18, 2007

so that they can attract and retain customers. Unlike regulated utility monopolies, competition allows consumers a variety of choices among suppliers, preferred pricing options, green or renewable energy supplies, terms of service, and customized product structures.

I am not going to go through each of the five house bills and enumerate our specific concerns with regard to each. Other speakers you will hear from today will do so, and we echo their comments and concerns. I would however, like to explain some of the benefits of competition, to dispel some of the false information that is being used to support these bills.

First, assertions that Michigan's Electric Choice Program is not working or is a failed experiment are just not true. In fact, Electric Choice has worked well. Michigan businesses have saved more than \$500 million since the inception of choice. Michigan's electric utility rates have become more competitive with neighboring Midwest states.

Second, Electric Choice offers substantial savings to utilities which should be included in any tally of utility "harm" – for example, utilities save by reducing the burden of buying costly capacity and energy in summer months, by reducing transmission charges, and by profitably selling more excess generation into the wholesale market.

Third, suggestions that the ability of customers to choose an alternative supplier is preventing the utilities from being able to build new base load generation simply do not hold water. Many companies across the nation – inside and outside of Michigan – are willing and able to build generation here without ratepayer funding. Substantial amounts of generation have been built within Michigan by non-utilities since the beginning of Electric Choice, and none of the costs of this generation has been a burden to utility customers. Are the utilities saying that they *can't* build new generation, or are they simply saying they *choose not to build* unless they are able to saddle all of the risks and little of the benefits on ratepayers by eliminating competition?

If utilities choose not to build new generation, that's fine. Other companies stand ready to come into the state and provide needed new base load capacity. House Bill 4630 provides the framework for a competitive bidding process to site new base load generation. This is a way to provide customers with the benefits of new generation at lowest competitive costs, and without as much risk to rate payers, compared to the proposed bills. Integrys Energy Services supports this competitive approach to building new base load generation in Michigan.

Lastly, I would like to address the "compromise" plans which are being discussed as allegedly preserving Electric Choice. The reality is these plans seek to restrict competition to a prescribed percentage of the market and force customers no longer served by traditional utilities to pay for the costs of new utility generating plants. Discriminating among customers is not a healthy path for competition. When one customer has a low, competitive electric rate but a neighbor does not because the law says the percentage who can switch is filled, the reaction against the discriminatory effect

No one would stand for carving up the cell phone market and awarding a 90% share to one vendor. No one here would refute the benefits provided by a competitive marketplace---more options, better service, and lower prices. The electric power market should be no different.

### **Perspective on Renewable Portfolio Standards**

Integritys Energy Services does not oppose Renewable Portfolio Standards. As an electric supplier in the eastern United States we comply with RPS standards in all of the New England and Mid-Atlantic states. We understand House Bills 5548 and 5549 are works in progress and would encourage legislators to make sure this legislation is “competitively neutral” in regards to the treatment of regulated utilities and alternative electric suppliers. Our experience has shown that well devised and specific RPS legislation can be successful. We would recommend drafters of these bills look at the program implemented in the State of Massachusetts as a model for how a program has been successfully crafted and implemented without negative effects on customer rates or a competitive market.

### **Perspective on energy efficiency**

Integritys Energy favors energy efficiency and maintains an Energy Management Services group which offers energy efficiency and demand side management products. However, we believe House Bill 5525 needs improvement. Aside from it being tie-barred to the other bills in the package ----which we oppose, the bill should be crafted so as to be “competitively neutral”. Additionally, it should allow for companies with large electrical loads or large aggregated loads to elect to have their own independent energy efficiency programs and be exempt from any special non-by-passable charges to fund statewide energy efficient programs.

### **Summary**

In summary, Integritys Energy Services opposes House Bills 5520-5525 as they will effectively eliminate competitive retail electricity supply in Michigan. Compromise proposals that carve out a small percentage of the current market for choice customers are also unacceptable, because they will have the same effect of eliminating competition. With regard to RPS and Energy Efficiency legislation, we would advocate they be drafted in a form to be “competitively neutral”.

Thank you for the opportunity to testify before this committee.